

LAKE ERIE TRANSPORTATION COMMISSION

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

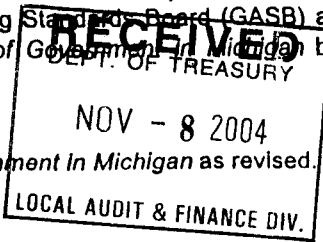
**WITH
INDEPENDENT AUDITORS' REPORT**

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name LAKE ERIE TRANSPORTATION COMMISSION	County MONROE
Audit Date JUNE 30, 2004	Opinion Date AUGUST 6, 2004	Date Accountant Report Submitted to State: NOVEMBER 4, 2004		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).			X

Certified Public Accountant (Firm Name) ROBERTSON, EATON & OWEN, P.C.			
Street Address 121 NORTH MAIN STREET	City ADRIAN	State MI	ZIP 49221
Accountant Signature 			

LAKE ERIE TRANSPORTATION COMMISSION

INDEPENDENT AUDITORS' REPORT

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LAKE ERIE TRANSPORTATION COMMISSION

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2004

Our discussion and analysis of Lake Erie Transportation Commission's financial statements provides an overview of the Transportation Commission's financial activities for the fiscal year ended June 30, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Net Assets provide information about the activities of the Transportation Commission and present a long-term view of the Transportation Commission's finances. Also, the financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and supplementary information.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Transportation Commission's overall financial status. These statements report information about the Transportation Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenditures, and Changes in Fund Net Assets regardless of when cash is received or paid. The two government-wide statements report the Transportation Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities - this is one way to measure the Transportation Commission's financial health or position.
- The third statement is the Statement of Cash Flows which shows the change in cash and cash equivalents presenting all activity of the Transportation Commission on a cash basis.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by supplementary information that further explains and supports the information in the financial statements.

Reporting the Transportation Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Net Assets report information about the Transportation Commission, as a whole, and about its activities in a way that helps answer the question of whether the Transportation Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Transportation Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for the Statement of Revenues, Expenditures, and Changes in Fund Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Transportation Commission's net assets and how they have changed. The reader can think of the Transportation Commission's net assets (the difference between assets and liabilities) as one way to measure the Transportation Commission's financial health or financial position. Over time, increases or decreases in the Transportation Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To access the overall health of the Transportation Commission, you need to consider additional factors such as changes in the general economy and changes in the laws related to Federal and State transportation funding.

Fund Financial Statements

The Transportation Commission has only one fund, the General Operating Fund, in which all of the Transportation Commission's activities are accounted. The General Operating Fund is a business-type fund, which accounts for activities on a full accrual basis.

Financial Analysis of the Transportation Commission as a Whole

The Transportation Commission's net assets decreased approximately 10.2% from \$1,938,185 to \$1,740,334 for the year ended June 30, 2004. The net assets and change in net assets are summarized below.

Net Assets

Net assets are divided between the three transit systems

Lake Erie Local Service System (LSS)
Monroe Essential Transportation System (ETS)
Bedford Local Service System

based on activity in each system. Also, a portion of net assets has been reserved for investment in capital assets (\$264,795); and a portion has been designated by the Commission for future capital improvements (\$1,000,000).

Net assets of each transit system must have a positive balance. If a deficit position occurs in one of the transit systems, the transfer is usually made from the LSS System to cover the deficit.

The net assets decreased by \$197,851 during 2003-04. The primary reason for the decrease was an increase in operating expenditures.

Net Assets (Continued)

The investment in capital assets increased by \$155,267.

Net assets as of years ended June 30, 2004 and 2003 follow:

	<u>2004</u>	<u>2003</u>
Current assets	\$ 1,907,358	\$ 2,334,802
Capital assets	<u>264,795</u>	<u>109,528</u>
Total assets	<u>2,172,153</u>	<u>2,444,330</u>
Long-term liabilities	220,507	211,812
Other liabilities	<u>211,312</u>	<u>294,333</u>
Total liabilities	<u>431,819</u>	<u>506,145</u>
Net assets:		
Invested in capital assets	264,795	109,528
Designated for future capital improvements	1,000,000	1,000,000
Transit system balances	<u>475,539</u>	<u>828,657</u>
Total net assets	<u>\$ 1,740,334</u>	<u>\$ 1,938,185</u>

Changes in Net Assets

A summary of changes in net assets for the years ended June 30, 2004 and 2003 follows:

	<u>2004</u>	<u>2003</u>
Revenues		
Operating revenue	\$ 270,823	\$ 285,171
Nonoperating revenue – local	968,805	939,387
Grants	<u>1,604,941</u>	<u>1,515,451</u>
Total revenues	2,844,569	2,740,009
Operating expenditures	<u>(3,042,420)</u>	<u>(2,805,356)</u>
Decrease in net assets	<u>\$ (197,851)</u>	<u>\$ (65,347)</u>

Total revenues were \$2,844,569, an increase of \$104,560 as compared to last year. The change in revenues resulted primarily from an increase in Federal and State grants of \$89,490. Total expenditures were \$3,042,420, an increase of \$237,064 as compared to prior year. This change in expenditures is primarily due to increases in wages and fringes and insurance.

Budgetary Highlights

General Fund Budgetary Highlights

The budget for fiscal year 2004 was \$2,925,000; actual expenses were \$3,042,420, a difference of \$117,420. A summary of items over budget follows:

- \$51,019 in driver wages, due mainly to rerouting of the fixed route and larger than expected turn over of drivers. In fiscal year 2004, we hired 12 new drivers while 10 were terminated or resigned.
- \$10,309 in Road Supervisor's salary, due mainly to extra overtime for new route implementation, transfer station opening, and driver training.
- \$27,141 in vehicle insurance, cost was higher than projected.
- \$22,056 for depreciation was not included in the original budget.
- \$7,203 in maintenance wages, due to extra hours to maintain obsolete equipment.
- \$4,205 in staff wages, due to transfer station opening.
- \$32,355 in professional services, due to arbitration fees, increased usage of in house counsel, cost associated with the wireless link to the transfer station, and cost related to antenna tower replacement.
- \$10,000 in advertising, due mainly to new routes advertising and route guide replacement.

Revenue generated was less than budget due mainly to reductions in State operating dollars. Total net loss for fiscal year 2004 was \$197,851.

Capital Assets

Capital Assets

As of June 30, 2004, the Transportation Commission had invested \$343,329 in capital assets. This amount represents a net increase of \$177,323.

	<u>2004</u>	<u>2003</u>	<u>Total Percentage Change</u>
Capital Assets Being Depreciated			
Buildings	\$ 177,323	\$	100%
Vehicles	<u>166,006</u>	<u>166,006</u>	
Total capital assets	343,329	166,006	
Total accumulated depreciation	<u>(78,534)</u>	<u>(56,478)</u>	
Total net capital assets	<u>\$ 264,795</u>	<u>\$ 109,528</u>	

The investment in capital assets for fiscal year 2003-04 was the Transportation Commission's share of the cost in the new transfer station (\$177,323).

Economic Factors and Next Year's Budget

Fuel cost increase and cuts in State and Federal funding give concern for fiscal year 2005. The Commission's fund balance of \$1,311,155 has decreased due to capital spending. LETC has two large capital building projects plus bus purchases over the next two years that will reduce the fund balance.

The budget for fiscal year 2005 will also have to draw from the Commission's fund balance or cuts will have to be made in its operating budget.

LETC does have an operating millage of .5 mills in the City of Monroe and also in Frenchtown Township. For fiscal year 2005, LETC has requested to levy approximately .41 mills in the City and .37 mills in the Township.

Contacting the Commission's Financial Management

This financial report is designed to provide the citizens and other interested parties a general overview of the Transportation Commission's finances and to show the Transportation Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Lake Erie Transportation Commission, 1105 West Seventh Street, Monroe, Michigan 48161.

To the Board of Directors
Lake Erie Transportation Commission
Monroe, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the business-type activities of Lake Erie Transportation Commission, as of and for the years ended June 30, 2004 and 2003, which comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lake Erie Transportation Commission's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Lake Erie Transportation Commission, as of June 30, 2004 and 2003, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, Lake Erie Transportation Commission has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2004 on our consideration of Lake Erie Transportation Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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To the Board of Directors
Lake Erie Transportation Commission
Monroe, Michigan

The management's discussion and analysis on pages i through iv is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that comprise Lake Erie Transportation's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Lake Erie Transportation Commission. Such information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
August 6, 2004

To the Board of Directors
Lake Erie Transportation Commission
Monroe, Michigan

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the business-type of Lake Erie Transportation Commission, as of and for the year ended June 30, 2004, which comprise Lake Erie Transportation Commission's basic financial statements and have issued our report thereon dated August 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether Lake Erie Transportation Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Lake Erie Transportation Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain immaterial instances of noncompliance that we have reported to management of Lake Erie Transportation Commission in a separate letter dated August 6, 2004.

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To the Board of Directors
Lake Erie Transportation Commission
Monroe, Michigan

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
August 6, 2004

LAKE ERIE TRANSPORTATION COMMISSION

STATEMENTS OF NET ASSETS

June 30, 2004 and 2003

	<u>Business-Type Activity</u>	
	<u>General Operating</u>	
ASSETS	<u>2004</u>	<u>2003</u>
Current assets:		
Cash	\$ 178,304	\$ 696,426
Investments	1,271,959	1,400,914
Due from SMART	313,225	132,355
Accounts receivable – other	25,956	27,860
Prepaid insurance	54,602	19,835
Inventory	<u>63,312</u>	<u>57,412</u>
Total current assets	<u>1,907,358</u>	<u>2,334,802</u>
Capital assets:		
Vehicles	166,006	166,006
Building	177,323	
Accumulated depreciation	<u>(78,534)</u>	<u>(56,478)</u>
Capital assets – net	<u>264,795</u>	<u>109,528</u>
Total assets	<u>\$ 2,172,153</u>	<u>\$ 2,444,330</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 75,038	\$ 45,862
Due to Smart	34,873	107,039
Accrued payroll and related taxes	89,642	64,177
Deferred revenue	<u>11,759</u>	<u>77,255</u>
Total current liabilities	<u>211,312</u>	<u>294,333</u>
Long term liabilities:		
Advance from SMART (Note 2)	150,000	150,000
Accrued sick pay	25,459	21,565
Accrued vacation	<u>45,048</u>	<u>40,247</u>
Total long term liabilities	<u>220,507</u>	<u>211,812</u>
Total liabilities	<u>431,819</u>	<u>506,145</u>
Net assets:		
Invested in capital assets	264,795	109,528
Designated for future capital improvements	1,000,000	1,000,000
Lake Erie Local Service System (LSS)	473,104	824,955
Monroe Essential Transportation Services (ETS)	-	-
Bedford Local Service System	<u>2,435</u>	<u>3,702</u>
Total net assets	<u>\$ 1,740,334</u>	<u>\$ 1,938,185</u>

The notes to the financial statements are an integral part of this statement.

LAKE ERIE TRANSPORTATION COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS

For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	<u>LSS</u>	<u>ETS</u>	<u>Bedford</u>	<u>2004</u>	<u>Totals</u> <u>2003</u>
Operating revenues:					
Passenger fares	\$ 88,342	\$ 28,040	\$ 4,024	\$ 120,406	\$ 142,419
Contracts		146,001		146,001	138,880
Other	<u>4,416</u>	<u></u>	<u></u>	<u>4,416</u>	<u>3,872</u>
Total operating revenues	<u>92,758</u>	<u>174,041</u>	<u>4,024</u>	<u>270,823</u>	<u>285,171</u>
Operating expenditures:					
Operations	1,385,250	493,496	77,749	1,956,495	1,754,149
Maintenance	392,380	162,696	30,874	585,950	542,169
Administrative	301,158	164,208	24,067	489,433	501,593
RTAP expenses	2,466			2,466	5,616
Section 5313 expense	<u>8,076</u>	<u></u>	<u></u>	<u>8,076</u>	<u>1,829</u>
Total operating expenses	<u>2,089,330</u>	<u>820,400</u>	<u>132,690</u>	<u>3,042,420</u>	<u>2,805,356</u>
Deficiency of revenues under expenditures	<u>(1,996,572)</u>	<u>(646,359)</u>	<u>(128,666)</u>	<u>(2,771,597)</u>	<u>(2,520,185)</u>
Nonoperating revenues – Local:					
City of Monroe taxes	295,698			295,698	285,122
Frenchtown Township taxes	353,265			353,265	366,416
Monroe Township	21,891			21,891	19,970
Bedford support			80,975	80,975	77,944
Commission on Aging		156,659		156,659	140,303
Interest income	9,844	209		10,053	28,899
Advertising	46,988			46,988	20,733
Other	<u>3,276</u>	<u></u>	<u></u>	<u>3,276</u>	<u></u>
Total nonoperating revenues – local	<u>730,962</u>	<u>156,868</u>	<u>80,975</u>	<u>968,805</u>	<u>939,387</u>
Grants:					
CMAQ					1,690
Section 5313	8,076			8,076	1,829
Act 51	798,298	369,597	46,424	1,214,319	1,171,581
Section 5311	20,768	90,822		111,590	135,484
RTAP	2,466			2,466	3,500
Section 5307	<u>268,490</u>	<u></u>	<u></u>	<u>268,490</u>	<u>201,367</u>
Total grant revenues	<u>1,098,098</u>	<u>460,419</u>	<u>46,424</u>	<u>1,604,941</u>	<u>1,515,451</u>
Total nonoperating revenues	<u>1,829,060</u>	<u>617,287</u>	<u>127,399</u>	<u>2,573,746</u>	<u>2,454,838</u>
Net loss	(167,512)	(29,072)	(1,267)	(197,851)	(65,347)
Net assets – beginning of year	1,934,483		3,702	1,938,185	2,003,532
Transfer from LSS	<u>(29,072)</u>	<u>29,072</u>	<u></u>	<u></u>	<u></u>
Net assets – end of year	<u>\$ 1,737,899</u>	<u>\$ -</u>	<u>\$ 2,435</u>	<u>\$ 1,740,334</u>	<u>\$ 1,938,185</u>

The notes to the financial statements are an integral part of this statement.

LAKE ERIE TRANSPORTATION COMMISSION

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2004 and 2003

INCREASE (DECREASE) IN CASH

	<u>2004</u>	<u>2003</u>
Cash flows from operations:		
Cash received from passenger fares and contracts	\$ 272,727	\$ 259,664
Cash paid to suppliers and employees	<u>(3,078,556)</u>	<u>(2,698,513)</u>
Net cash used in operating activities	<u>(2,805,829)</u>	<u>(2,438,849)</u>
Cash flows from noncapital financing activities:		
Contributions from local governments and agencies	970,511	910,488
Federal and State grants	1,424,071	1,515,451
Increase (decrease) in deferred revenue	(77,255)	77,255
Increase (decrease) in accrued sick pay	3,894	(823)
Increase (decrease) in accrued vacation	<u>4,801</u>	<u>779</u>
Net cash provided by financing activities	<u>2,326,022</u>	<u>2,503,150</u>
Cash flows from capital financing activities:		
Acquisition of fixed assets	<u>(177,323)</u>	<u>(59,502)</u>
Cash flows from investing activities:		
Interest received	<u>10,053</u>	<u>28,899</u>
Net increase (decrease) in cash	(647,077)	33,698
Cash at beginning of year	<u>2,097,340</u>	<u>2,063,642</u>
Cash at end of year	<u>\$ 1,450,263</u>	<u>\$ 2,097,340</u>

Cash includes amounts in demand deposits as well as investments with a maturity date within three months of the date acquired.

LAKE ERIE TRANSPORTATION COMMISSION

STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2004 and 2003

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED
IN OPERATING ACTIVITIES

	<u>2004</u>	<u>2003</u>
Net operating loss	\$ <u>(2,771,597)</u>	\$ <u>(2,520,185)</u>
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	22,056	13,904
(Increase) decrease in receivables	1,904	(25,507)
(Increase) decrease in inventory	(5,900)	(11,230)
(Increase) decrease in prepaids	(34,767)	4,090
(Decrease) increase in accounts payable	29,176	97,081
(Decrease) increase in other payables	<u>(46,701)</u>	<u>2,998</u>
Total adjustments	<u>(34,232)</u>	<u>81,336</u>
Net cash used in operating activities	\$ <u>(2,805,829)</u>	\$ <u>(2,438,849)</u>

LAKE ERIE TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For financial reporting purposes, Lake Erie Transportation Commission includes all funds and accounts that are controlled by the Commission.

Lake Erie Transportation Commission is a primary governmental unit with no outside component units.

Lake Erie Transportation Commission (LETC) is engaged under contract with the Suburban Mobility Authority For Regional Transportation (SMART) to set policy and provide funding for public transportation to Monroe County residents, with the Monroe Essential Transportation Service giving priority to elderly and physically and mentally impaired persons, and the Bedford and Lake Erie Local Service System providing general public transportation. Under the terms of the contract, transportation equipment is provided by SMART. The building and grounds presently occupied by the Commission are owned by SMART and made available rent free.

Management services are provided under contract with SMART by First Transit America, a Division of FirstGroup America, Inc.

The accounting policies of Lake Erie Transportation Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Effective July 1, 2003, Lake Erie Transportation Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Commission's overall financial position and results of operations has been included with the financial statements.
- Financial statements prepared using full accrual accounting for all of the Commission's activities.
- A change in the fund financial statements to focus on the major fund.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Commission has elected to implement the general provisions of the statement.

Basic Financial Statements – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Net Assets) report information on the activities of the Commission. Lake Erie Transportation Commission consists solely of a business-type activity; no governmental-type activity exists.

LAKE ERIE TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial statements are provided for the business-type fund which is the same as the governmental-wide financial statements.

The major individual fund (General Operating Fund) is reported in the financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

LETC uses the accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available for use in current operations. Expenses are recorded when the liability is incurred.

LETC accounts for its operations in a manner similar to private business enterprises, where the intent of LETC is that the costs (expenses including depreciation) of providing services to the general public on a continuing basis are financed through user charges, SMART subsidy, or local tax revenues. LETC is deemed to be an enterprise fund.

Monroe Essential Transportation Services (ETS), Lake Erie Local Service System (LSS), and Bedford Local Service System share common expenses. These expenses were allocated at year-end based on the number of actual bus hours, bus miles, and peak number of buses operated by each system during the year.

Cash and Investments – Cash and cash investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value.

Inventory – LETC maintains an inventory of repair and replacement parts at cost. Parts are charged to expense when they are used.

Fixed Assets and Depreciation – Fixed assets are stated at cost. Cost relating to maintenance and repairs are charged to expense. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LAKE ERIE TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 2: ADVANCE FROM SMART

SMART continues its advance to LETC in the sum of \$150,000, as the estimated amount of working capital funds required to maintain proper fiscal management. The advanced funds shall be deducted over the last two reimbursement payments under the current contract with SMART unless a successor contract has been entered into between the parties which provides for the continuance of the advance.

NOTE 3: ACCRUED SICK AND VACATION PAY

As provided in the union contract between LETC and the United Steelworkers of America, Local 2511, all non-probationary employees are eligible to accumulate sick leave to a maximum of forty (40) days. Leave is accumulated at three-quarters (3/4) days per month worked. At June 30, 2004, the liability for unused sick leave was \$25,459.

Also, LETC has accumulated vacation pay for those employees who have unused vacation time up to their anniversary date. The liability at June 30, 2004 was \$45,048.

NOTE 4: SETTLEMENTS PAYABLE

Estimated settlements due to SMART on Act 51 and Section 5311 are as follows:

<u>Fiscal Year</u>	<u>Total Settlement</u>
1999 – 2000	\$ 4,905
2000 – 2001	2,307
2001 – 2002	5,043
2002 – 2003	<u>8,446</u>
	<u>\$ 20,701</u>

The settlements payable are included in the amount 'Due to Smart' shown in the financial statements.

This account also included the June 2004 monthly expenses of \$14,172 reimbursed to SMART.

LAKE ERIE TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 5: FUNDING FROM SMART

SMART funding of the three systems operated by LETC consists of Federal and State funds which are received through SMART. Funding for the fiscal year ending June 30, 2004 was as follows:

<u>Amounts Received</u>	<u>LSS</u>	<u>ETS</u>	<u>Bedford</u>	<u>Adjustment For Fiscal Year 2002 - 2003 Settlements</u>	<u>Total</u>
Federal Funds:					
Section 5311	\$ 21,492	\$ 93,719	\$	\$ (3,621)	\$ 111,590
Section 5313	8,076				8,076
Section 5307	268,490				268,490
RTAP	2,466				2,466
State Funds:					
Act 51	<u>805,982</u>	<u>373,213</u>	<u>43,538</u>	<u>(8,414)</u>	<u>1,214,319</u>
Total	<u>\$ 1,106,506</u>	<u>\$ 466,932</u>	<u>\$ 43,538</u>	<u>\$ (12,035)</u>	<u>\$ 1,604,941</u>

Included in the above amounts are expenses incurred by SMART on behalf of LETC in the amount of \$170,322.

NOTE 6: DEPOSITS AND INVESTMENTS

DEPOSITS. At year end, the carrying value of LETC's deposits was \$178,304 and the bank balance was \$211,753. The total bank balance is classified in the following three categories of credit risk: (1) Insured or collateralized with securities held by LETC or by its agent in LETC's name. (2) Collateralized with securities held by a pledging financial institution's trust department or agent in LETC's name. (3) Uncollateralized.

	<u>CATEGORIES</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Checking/money market	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 111,753</u>	<u>\$ 211,753</u>

LAKE ERIE TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

Statutes authorize Lake Erie Transportation Commission to invest in obligations of the U.S. Treasury, agencies, and instrumentalities: Commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptance of U.S. banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions that are insured with the applicable federal agency. Public funds of Lake Erie Transportation Commission may not be deposited in financial institutions located in states other than Michigan. The Commission has authorized one depository, Fifth Third Bank.

INVESTMENTS: LETC's investments are classified in the following three categories of credit risk: (1) Insured or registered, or securities held by LETC, or its agent in LETC's name. (2) Uninsured and unregistered, with securities held by the counterparty's trust department, or agent in LETC's name. (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department, or agent, but not in LETC's name.

CATEGORIES

	<u>1</u>	<u>2</u>	<u>3</u>	<u>Carrying Value</u>	<u>Market Value</u>
Managed Investment Account	\$ -	\$ -	\$ 1,271,959	\$ 1,271,959	\$ 1,271,959

NOTE 7: TAX REVENUE

During 2003, Frenchtown Township levied .30 mills for the LSS System based on a property taxable value of \$1,198,213,526 and the City of Monroe levied .3391 mills for the LSS System based on a property taxable value of \$887,237,275.

NOTE 8: CAPITAL ASSETS

All buildings, vehicles, and equipment used by Lake Erie Transportation Commission are owned by SMART or the State of Michigan.

The capital asset values shown on the financial statements represent LETC's share of funding of the transfer station (building) and certain vehicles.

LAKE ERIE TRANSPORTATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 9: CONTINGENCIES

Lake Erie Transportation Commission is subrecipient of mass transit operating assistance funds from the State of Michigan and the Federal Government. Suburban Mobility Authority for Regional Transportation (SMART) is the primary recipient of these funds passing them through to Lake Erie Transportation.

The State of Michigan conducts examinations of prior years' eligible cost related to this funding and may raise questions concerning eligibility of certain costs for reimbursement. The ultimate outcome cannot presently be determined. Accordingly, no provision for any loss that may result from the resolution of this matter has been made in the accompanying financial statements.

NOTE 10: TRANSFERS BETWEEN SYSTEMS

Over the years, Lake Erie Local Service System has made transfers of funds to the other two systems, Monroe Essential Transportation Service System and Bedford Local Service System, to cover deficit balances. The Monroe Essential Transportation Service System has \$32,952 non-reimbursed transfers, while the Bedford System has had \$67,044 non-reimbursed transfers since 1981.

NOTE 11. PENSION PLAN

Under a recently adopted union agreement, employees of Lake Erie Transportation Commission are covered under a pension plan. Details on this plan were currently not available.

LAKE ERIE TRANSPORTATION COMMISSION
SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL

For the Year Ended June 30, 2004

With Comparative Totals for the Year Ended June 30, 2003

	<u>LSS</u>	<u>ETS</u>	<u>Bedford</u>	<u>Total</u>	2004 <u>Budget</u>	2003 <u>Total</u>
Operations:						
Drivers' wages	\$ 694,195	\$ 232,022	\$ 36,037	\$ 962,254	\$ 911,235	\$ 865,729
Supervisor salary	60,390	20,184	3,135	83,709	73,400	75,623
Dispatchers' wages	68,489	22,891	3,555	94,935	108,238	64,561
Fringe benefits	329,324	110,070	17,096	456,490	470,582	445,532
Fuel and lubricants	105,844	43,887	8,328	158,059	157,460	140,395
Tires and tubes	12,449	5,161	980	18,590	40,000	20,127
Other materials	6,425	2,148	334	8,907	5,000	5,342
Vehicle insurance	82,884	48,350	6,907	138,141	111,000	104,583
Travel and meetings	9,634	3,220	500	13,354	12,000	18,353
Depreciation	<u>15,616</u>	<u>5,563</u>	<u>877</u>	<u>22,056</u>		<u>13,904</u>
Total operations	<u>1,385,250</u>	<u>493,496</u>	<u>77,749</u>	<u>1,956,495</u>	<u>1,888,915</u>	<u>1,754,149</u>
Maintenance:						
Wages	231,939	96,171	18,250	346,360	339,157	309,086
Fringe benefits	83,208	34,501	6,547	124,256	128,193	96,803
Other services	11,950	4,955	940	17,845	32,000	53,569
Materials	64,094	26,576	5,043	95,713	93,000	81,938
Miscellaneous	<u>1,189</u>	<u>493</u>	<u>94</u>	<u>1,776</u>	<u>1,450</u>	<u>773</u>
Total maintenance	<u>392,380</u>	<u>162,696</u>	<u>30,874</u>	<u>585,950</u>	<u>593,800</u>	<u>542,169</u>
Administrative:						
Wages	41,325	24,106	3,444	68,875	64,670	66,305
Fringe benefits	13,788	8,043	1,149	22,980	24,530	22,778
Professional services	156,407	73,622	11,126	241,155	208,800	237,423
Supplies	5,680	3,313	473	9,466	12,000	11,440
Utilities	20,207	11,787	1,684	33,678	28,000	26,577
Telephone	12,381	7,222	1,032	20,635	22,000	46,515
Insurance	12,081	7,047	1,007	20,135	17,000	15,428
Travel and meetings	2,112	1,232	176	3,520	22,000	13,074
Advertising and promotion	30,470	17,774	2,539	50,783	40,785	25,046
Miscellaneous	<u>6,707</u>	<u>10,062</u>	<u>1,437</u>	<u>18,206</u>	<u>2,500</u>	<u>37,007</u>
Total administrative	<u>301,158</u>	<u>164,208</u>	<u>24,067</u>	<u>489,433</u>	<u>442,285</u>	<u>501,593</u>
RTAP expense	<u>2,466</u>	<u>-</u>	<u>-</u>	<u>2,466</u>	<u>-</u>	<u>5,616</u>
Section 5313 expense	<u>8,076</u>	<u>-</u>	<u>-</u>	<u>8,076</u>	<u>-</u>	<u>1,829</u>
Total operating expenses	<u>\$ 2,089,330</u>	<u>\$ 820,400</u>	<u>\$ 132,690</u>	<u>\$ 3,042,420</u>	<u>\$ 2,925,000</u>	<u>\$ 2,805,356</u>

LAKE ERIE TRANSPORTATION COMMISSION
SCHEDULE OF NET ELIGIBLE COSTS COMPUTATION

For the Year Ended June 30, 2004
And Recap of Fiscal Year Ended September 30, 2003

	LAKE ERIE LOCAL SERVICE SYSTEM	
	7/01/03 9/30/03	10/01/03 6/30/04
Expenses:		
Operations	\$ 324,211	\$ 1,061,039
Maintenance	101,427	290,953
Administrative	80,106	221,052
RTAP expenses		2,466
Section 5313 expense	<u>6,626</u>	<u>1,450</u>
Total expenses	512,370	1,576,960
Ineligible expenses:		
Less: Depreciation expense	(3,904)	(11,712)
Less: RTAP expenses reimbursed		(2,466)
Less: Section 5313 reimbursement	<u>(6,626)</u>	<u>(1,450)</u>
Net eligible expenses -- Act 51	<u>\$ 501,840</u>	<u>\$ 1,561,332</u>
Net eligible expenses -- Section 5311 -- 100%		
Net eligible expenses -- Section 5311 -- 10%	<u>\$ 50,184</u>	<u>\$ 156,133</u>
Net eligible expenses -- Section 5307 -- 90%	<u>\$ 451,656</u>	<u>\$ 1,405,199</u>
Grant Reimbursement Received -- Act 51, Section 5311, and Section 5307		
Act 51	\$ 199,526	\$ 606,456
Section 5311	4,541	16,233
Section 5307		<u>268,490</u>
Total grant reimbursement	<u>\$ 204,067</u>	<u>\$ 891,179</u>

MONROE ESSENTIAL TRANSPORTATION SERVICES		BEDFORD LOCAL SERVICE SYSTEM		<u>Total</u>
<u>7/01/03</u> <u>9/30/03</u>	<u>10/01/03</u> <u>6/30/04</u>	<u>7/01/03</u> <u>9/30/03</u>	<u>10/01/03</u> <u>6/30/04</u>	
\$ 120,203	\$ 373,293	\$ 19,053	\$ 58,696	\$ 1,956,495
44,984	117,712	8,224	22,650	585,950
39,714	124,494	5,946	18,121	489,433
				2,466
				<u>8,076</u>
204,901	615,499	33,223	99,467	3,042,420
(1,390)	(4,173)	(219)	(658)	(22,056)
				(2,466)
				<u>(8,076)</u>
<u>\$ 203,511</u>	<u>\$ 611,326</u>	<u>\$ 33,004</u>	<u>\$ 98,809</u>	<u>\$ 3,009,822</u>
<u>\$ 203,511</u>	<u>\$ 611,326</u>	<u>\$ 33,004</u>	<u>\$ 98,809</u>	<u>\$ 946,650</u>
				<u>\$ 206,317</u>
				<u>\$ 1,856,855</u>
\$ 92,395	\$ 280,818	\$ 10,782	\$ 32,756	\$ 1,222,733
20,304	70,544			111,622
				<u>268,490</u>
<u>\$ 112,699</u>	<u>\$ 351,362</u>	<u>\$ 10,782</u>	<u>\$ 32,756</u>	<u>\$ 1,602,845</u>

LAKE ERIE TRANSPORTATION COMMISSION
SCHEDULE OF NET ELIGIBLE COSTS COMPUTATION

For the Year Ended June 30, 2004

And Recap of Fiscal Year Ended September 30, 2003

LAKE ERIE LOCAL
SERVICE SYSTEM

Recap of Fiscal Year From October 1, 2002 to September 30, 2003

Net eligible expense for fiscal year – Act 51	<u>\$ 1,920,491</u>
Net eligible expense for fiscal year – Section 5311	<u>192,049</u>
Maximum reimbursement:	
Act 51 (42.93218922% of eligible expenses)	824,509
Act 51 (35.59371265% of eligible expenses)	
Section 5311 (10.95% of eligible expenses)	<u>21,029</u>
Total	<u>845,538</u>
Amount received:	
Act 51	798,128
Section 5311	<u>17,467</u>
Total	<u>815,595</u>
Due from (to) Smart	<u><u>\$ 29,943</u></u>

**MONROE ESSENTIAL
TRANSPORTATION
SERVICES**

**BEDFORD LOCAL
SERVICE SYSTEM
SERVICE SYSTEM**

\$ 781,556

\$ 129,279

781,556

-

335,539

46,015

85,580

421,119

46,015

369,577

43,129

89,049

458,626

43,129

\$ (37,507)

\$ 2,886

LAKE ERIE TRANSPORTATION COMMISSION
NOTES ON INELIGIBLE EXPENSES AND REVENUES
For the Year Ended June 30, 2004

APTA and MPTA Dues

No APTA and MPTA dues were paid in fiscal year 2003-2004.

Depreciation

Depreciation expense is a non-allowable expense because in this case it represents partial expensing of the local contribution on the buses and street car purchased.

Audit Fee

A transit agency was required to have a single audit for the prior year. As such, the cost of the annual financial audit was an eligible expense under Section 5311.

LAKE ERIE TRANSPORTATION COMMISSION

SCHEDULE OF MILEAGE DATA

For the Year Ended June 30, 2004

	<u>LSS</u>	<u>ETS</u>	<u>Bedford</u>	<u>Total Mileage</u>
<u>Demand Response:</u>				
First Quarter	137,759	61,605	11,204	210,568
Second Quarter	134,218	56,511	10,913	201,642
Third Quarter	140,496	54,472	10,884	205,852
Fourth Quarter	<u>147,622</u>	<u>59,649</u>	<u>11,069</u>	<u>218,340</u>
Total operation	<u>560,095</u>	<u>232,237</u>	<u>44,070</u>	<u>836,402</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate method for recording vehicle mileage.

August 6, 2004

Board of Commissioners
Lake Erie Transportation Commission
Monroe, Michigan

This year's comment letter discusses the new Management's Discussion and Analysis letter, the financial condition of the Commission, and State and Federal funding.

MANAGEMENT'S DISCUSSION AND ANALYSIS LETTER (MD&A) LETTER

In the audit report of Lake Erie Transportation Commission for the year ended June 30, 2004, there is a new letter. The MD&A letter is located on pages i through v. This letter is a presentation by Lake Erie Transportation's management on the contents of the financial statements and discussion on changes. The changes pertain to differences between years; in budget; and future events. The letter also provides an overview of the financial statements in the report.

FINANCIAL CONDITION

Although the Lake Erie Transportation had an overall loss of (\$197,851), it still remains in good financial condition. The loss can mainly be attributed to increased wages and vehicle insurance.

The operating expense of the Commission increased 8.45% over prior year; while revenues increased 3.82%.

FEDERAL AND STATE FUNDING

Federal funding under Section 5311 remains constant at 10.95% of eligible costs. Under Section 5307 (Federal) funding has been constant at \$268,490 per year. While, funding under State Act 51, decreased slightly (\$15,600 less funds) from prior year.

Again, we appreciate the assistance provide by the staff of Lake Erie Transportation Commission during our audit.

Robertson, Eaton & Owen, CPA